



CITY OF GLENDALE, CALIFORNIA
Management Services Department
INTERNAL AUDIT

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October 14, 2013

REPORT #: 2014-05

Steve Zurn, General Manager of GWP
Glendale Water & Power

Dear Steve,

Enclosed is the final report of the Electric Rate Increase Implementation Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the audit.

Should you have any questions, please feel free to contact Jessie Zhang or myself.

Thank you,

A handwritten signature in cursive script that reads "Michele Flynn".

Michele Flynn,
City Auditor

Enclosure

cc: Ramon Abueg, Chief Assistant General Manager
Yasmin Beers, Assistant City Manager
Dave Davis, Executive Analyst
Robert Elliot, Director of Finance
Craig Kuennen, Business Transformation and Marketing Administrator
Steven Lins, Chief Assistant General Manager
Michelle Nall, Information Services Project Manager
Scott Ochoa, City Manager
Tami Vallier, Customer Services Administrator
City Council
Audit Committee

Electric Rate Increase Implementation Audit

October 14, 2013

Background

In accordance with Internal Audit's fiscal year 2013-14 annual work plan, Internal Audit completed an audit of Glendale Water & Power (GWP) Electric Rate Increase Implementation.

On August 13, 2013, the Glendale City Council approved the amendment to the Glendale Municipal Code (GMC) section 13.44 relating to Glendale Water and Power Electric Rates and Charges and adopted a resolution of the City of Glendale setting forth rates and charges for Glendale Water and Power electric service. GWP electric rates have not been increased since 2008. The City employed a rate consultant who performed a cost of service analysis (COSA) and an electric rate design for GWP. The COSA concluded that *"an electric rate increase is essential to maintain and restore the financial stability of the utility"* and *"the shares of total revenue collected from the various customer classes must be adjusted in order to accurately reflect the costs of providing electric service to each customer class"*.

The new electric rate structure included a Base Rate increase to cover GWP's currently-projected costs over the five-year period (Fiscal Year 2014-18) and three Adjustable Charges that would be applied on a semi-annual basis when certain actual costs and/or actual retail sales differ from the projected levels. These three new Adjustable Charges are the Energy Cost Adjustment Charge (ECAC), the Regulatory Adjustment Charge (RAC), and the Revenue Decoupling Charge (RDC).

Objective and Scope

The objectives of this audit was to review the electric rate changes in the utility billing system and to act as an advisor during the process to ensure that the rate increase implementation is conducted accurately and appropriately. The scope of this audit was to review the activities for updating the new high season rates effective September 13, 2013 and the development of accounting procedures for the new adjustable charges. In order to accomplish the audit objectives, the following audit procedures were performed:

- Obtained and reviewed GWP's services rate change policy and billing system rate change procedures;
- Conducted inquiries about the rate implementation action items list to ensure they appropriately addressed the changes in the Ordinance;
- Performed walkthroughs of selected action items to ensure the updating and testing of new rates were appropriately conducted;
- Observed and participated in team testing sessions conducted by GWP Information Services, Customer Services, and Accounting section staff on sample bills selected from both utility billing test and production environments;
- Performed detailed testing of the New/Old Rates Quality Control (QC) Report to ensure that the rates were updated correctly according to the new rate schedule;

- Reviewed the accounting procedures established for implementing the Adjustable Charges to ensure they are in compliance with the new Ordinance.

Summary of Results

As a result of the audit procedures performed, it was concluded that controls have been established by GWP management to ensure the rate changes are implemented accurately and appropriately. Policies have been established for implementing the City's service rate changes and detailed procedures were documented for the billing system rate updating processes. GWP Information Services established an action item list following the established rate change policy. Responsible staff was assigned to each action item with completion due dates. Team meetings were held on a regular basis to discuss issues noted, progress made and update the status of the action items. The rate change was implemented in the billing system test environment first, and then implemented in production. Sample bills for each applicable rate types were tested in both environments.

During the course of the new rate implementation, the team identified relatively minor inconsistencies and errors in several of the existing rates. These were identified as a result of following the newly established rate change implementation policies and procedures and quality control activities. These inconsistencies and errors were addressed and corrected during the course of the implementation. For example, low season rates were not updated to high season rates in the billing system for two rate types prior to the rate increase resulting in undercharges to 49

customers. GWP staff have made corrections and adjusted customer bills as appropriate. The team also identified 57 bi-monthly billing cycle customers that should be on a monthly billing cycle since they are paying demand charges. This resulted in the customer's demand not being reset monthly. There was no loss in revenue to GWP. These customers have been moved to a monthly billing cycle and the GWP customer services and information services staff have now established controls (daily QC report) to identify these customers in a timely manner.

The audit identified three improvement opportunities related to further improving the policies and procedures and quality control processes. The detailed Observation, Recommendations and Management Responses are summarized on the following pages.

Item	Observation	Recommendation	Management Response
1.	<p>Policies and procedures have been established and documented for implementing service rate changes. However, improvement opportunities were noted to formalize the policy, incorporate best practices.</p> <ul style="list-style-type: none"> ▪ Add version control to the document; ▪ Utilize attachments and procedures to reduce frequent policy revisions; ▪ Follow and review documented procedures and update if current practices have been changed; ▪ Create a "Lessons Learned" or "Implementation Memorandum" upon completion to document issues noted. 	<p>It was recommended that the policy and procedure improvement opportunities identified be considered and incorporated into the process for changing rates.</p>	<p>GWP management agrees with the recommendations. The GWP Information Services Project Manager will review and update the policies and procedures and document lessons learned in an Implementation Memo. Staff making rate changes in the billing system will follow the procedures and provide feedback to the supervisor on any required update. The new policies and procedures will be applicable to all other service rates changes.</p> <p>The anticipated completion date is December 31, 2013.</p>
2.	<p>Controls have been established to conduct quality control reviews of the rate changes. However, the validation reports require further improvement to prevent "false positive" results from occurring in the future.</p> <p>Upon reviewing quality control reports comparing the new and old rates</p>	<p>It was recommended that GWP Information Services Section further improve the QC reports as an effective validation tool.</p> <p>It was also recommended that GWP Information Services continue to involve Customer Services section staff for conducting independent</p>	<p>GWP management agrees with the recommendations and will add Customer Services staff conducting validation review to the rate change policy and procedures. The QC reports will be further improved to ensure accuracy. The review of QC report on all data fields will be jointly conducted by Information Services</p>

Item	Observation	Recommendation	Management Response
	<p>exported in Excel, “false positive” results were noted. These results had no adverse impact on the accuracy of the rates entered into the system. Rather, reports were not properly formatted when exporting data to Excel. Additionally, Customer Service Staff had not historically been involved in reviewing the QC reports. Because of the current process deployed, Customer Services staff was included which proved to be a valuable changes.</p>	<p>review of the QC reports. The report should be “user-friendly” to the Customer Services staff; the review objective should be clearly stated; the review result should be appropriately documented and issues identified appropriately followed up.</p> <p>It is further recommended that GWP Information Services and Customer Services sections jointly conduct a review of QC report on all data fields to ensure they are consistent and accurate.</p>	<p>and Customer Services section staff.</p> <p>The anticipated completion is December 2013.</p>
3.	<p>The accounting procedures have not been established or formally documented for implementing the three new adjustable charges. These rates are designed to adjust every January and July 1st for the next five years.</p> <p>As of the date of this report, the accounting procedures for implementing the adjustable charges have not been formally established. The procedures are necessary to address details such as 1) proper accounts being maintained for each</p>	<p>It is recommended that GWP Accounting section develop the accounting procedures for implementing these new adjustable charges in a timely manner to ensure that the accounts are appropriately maintained in accordance with the new Ordinance, and the computation of the adjustable charges are accurate and appropriate.</p>	<p>GWP management agrees with the recommendation and has started to develop the accounting procedures for the adjustable charges.</p> <p>The anticipated completion is November 15, 2013.</p>

Item	Observation	Recommendation	Management Response
	adjustable charge; 2) reasonable timeframes being established to ensure that the computation is performed and appropriately tested in the billing system prior to the effective date; and 3) determining if any true-up is required if/when the computation is performed with estimated amounts.		